

PERAC AUDIT REPORT



Lawrence Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2007



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

July 3, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Lawrence Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2007. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Carol Niemira and James Ryan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Board Member Attendance

The auditor reviewed the Minutes from January 2005 through December 2007. One member missed 50% of the meetings held in 2007. An absenteeism rate above 25% is considered excessive.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the schedule of Board meetings in order to better accommodate all members.

Board Response

Chairman Neilon has discussed the finding with Mayoral appointee, William McGuire. McGuire understands his obligation and fiduciary duty to the system. Mr. McGuire is employed in the private sector, and is required to travel quite often. Every effort will be made to be present at meetings in the future.

2. Membership

PERAC auditors sampled members' deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979. It was observed that periodically, members may receive additional paychecks for longevity and clothing allowances which are earnings subject to deduction. For that pay period when more than one pay check is issued, the Board is receiving less than the required 2% additional retirement deduction. The payroll system is not combining the total earnings in a pay period for calculating the 2% deduction.

Recommendation: The Board must comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which direct that the additional 2% deductions be withheld on total regular income over \$30,000 on a per pay-period basis. One possible solution is to issue only one weekly pay check combining all earnings subject to retirement deductions. Furthermore, the Board must work with the municipalities' payroll clerks to ensure that the payroll system is withholding all the required retirement deductions from regular compensation as defined by 840 CMR 15.03(1)(a).

Board Response

Letters were generated directly to the City Payroll department and the Division of Grants (DTD) informing them of the audit findings and advising them how to correct the deduction percentage issues. We also included copies of memo's defining 2% along with information regarding regular compensation under Chapter 32. This documentation was copied and sent to all our governmental units even if they are in compliance. After numerous conversations with both departments, all issues have been corrected. The City has combined total earnings in order to assess the correct 2% withholdings. They have also agreed to contact us prior to adding any new

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

allowance to the payroll to assure its subjectivity to retirement. The Division of Grants (DTD), based on audit findings has begun to take retirement out of the weekly health insurance allowance for their non union staff. They have also agreed to contact us prior to adding any new allowance to the payroll.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2007	2006	2005
Net Assets Available For Benefits:			
Cash	\$43,274,034	\$4,263,521	\$7,204,020
Fixed Income Securities	0	0	12,058,900
Equities	0	9,024,083	21,046,892
Pooled Domestic Equity Funds	7,439,771	20,571,746	29,336,213
Pooled International Equity Funds	0	10,392,529	11,953,225
Pooled Domestic Fixed Income Funds	0	0	4,973,671
Pooled Global Fixed Income Funds	26,859,319	37,768,834	22,169,543
Pooled International Balanced Funds	0	23,662,870	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	62,353,144	18,816,002	63,282
Interest Due and Accrued	23,983	18,738	112,931
Accounts Receivable	299,054	4,884,810	6,707,253
Accounts Payable	(499,707)	(675,069)	(998,780)
Total	<u>\$139,749,599</u>	<u>\$128,728,064</u>	<u>\$114,627,150</u>
Fund Balances:			
Annuity Savings Fund	\$48,098,984	\$44,642,413	\$41,064,623
Annuity Reserve Fund	15,115,242	15,135,713	15,215,537
Pension Fund	5,470,792	6,875,534	9,010,108
Military Service Fund	5,166	5,136	5,477
Expense Fund	0	0	0
Pension Reserve Fund	71,059,415	62,069,268	49,331,404
Total	<u>\$139,749,599</u>	<u>\$128,728,064</u>	<u>\$114,627,150</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2005)	\$37,492,686	\$15,765,671	\$10,793,878	\$6,315	\$0	\$44,084,829	\$108,143,379
Receipts	5,314,187	460,564	13,151,705	33	975,015	5,240,551	25,142,055
Interfund Transfers	(893,090)	887,935	0	(871)	0	6,025	(0)
Disbursements	(849,160)	(1,898,634)	(14,935,474)	0	(975,015)	0	(18,658,283)
Ending Balance (2005)	41,064,623	15,215,537	9,010,108	5,477	0	49,331,404	114,627,150
Receipts	5,842,508	450,318	13,590,862	32	970,244	12,736,545	33,590,509
Interfund Transfers	(1,475,986)	1,475,041	0	(374)	0	1,319	0
Disbursements	(788,733)	(2,005,182)	(15,725,436)	0	(970,244)	0	(19,489,596)
Ending Balance (2006)	44,642,413	15,135,713	6,875,534	5,136	0	62,069,268	128,728,064
Receipts	6,123,507	442,452	14,264,576	31	1,096,403	8,964,520	30,891,489
Interfund Transfers	(1,603,406)	1,577,779	0	0	0	25,627	(0)
Disbursements	(1,063,531)	(2,040,703)	(15,669,318)	0	(1,096,403)	0	(19,869,954)
Ending Balance (2007)	<u>\$48,098,984</u>	<u>\$15,115,242</u>	<u>\$5,470,792</u>	<u>\$5,167</u>	<u>\$0</u>	<u>\$71,059,415</u>	<u>\$139,749,599</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005
Annuity Savings Fund:			
Members Deductions	\$5,341,512	\$5,277,017	\$4,879,329
Transfers from Other Systems	447,105	240,733	136,445
Member Make Up Payments and Re-deposits	75,005	90,701	79,353
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	259,886	234,058	219,061
Sub Total	6,123,507	5,842,508	5,314,187
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	442,452	450,318	460,564
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	111,112	105,437	96,535
Pension Fund Appropriation	653,464	703,864	783,195
	13,500,000	12,781,561	12,271,975
Sub Total	14,264,576	13,590,862	13,151,705
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	31	32	33
Sub Total	31	32	33
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	1,096,403	970,244	975,015
Sub Total	1,096,403	970,244	975,015
Pension Reserve Fund:			
Federal Grant Reimbursement	569,494	654,685	507,444
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	5,543	5,742	7,754
Miscellaneous Income	4,752	12,775	20,355
Excess Investment Income	8,384,731	12,063,342	4,704,998
Sub Total	8,964,520	12,736,545	5,240,551
Total Receipts	\$30,891,489	\$33,590,509	\$25,142,055

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005
Annuity Savings Fund:			
Refunds to Members	\$794,313	\$531,149	\$661,527
Transfers to Other Systems	<u>269,218</u>	<u>257,584</u>	<u>187,633</u>
Sub Total	<u>1,063,531</u>	<u>788,733</u>	<u>849,160</u>
Annuity Reserve Fund:			
Annuities Paid	2,011,441	1,949,015	1,876,658
Option B Refunds	<u>29,262</u>	<u>56,167</u>	<u>21,976</u>
Sub Total	<u>2,040,703</u>	<u>2,005,182</u>	<u>1,898,634</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	9,429,291	9,296,343	8,713,404
Survivorship Payments	955,681	911,014	858,325
Ordinary Disability Payments	102,163	97,247	129,433
Accidental Disability Payments	3,568,794	3,705,876	3,416,212
Accidental Death Payments	1,058,714	1,072,845	1,136,077
Section 101 Benefits	135,749	163,873	146,541
3 (8) (c) Reimbursements to Other Systems	418,924	478,239	535,483
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>15,669,318</u>	<u>15,725,436</u>	<u>14,935,474</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	14,500	14,250	15,000
Salaries	173,225	163,207	163,594
Legal Expenses	22,013	13,366	28,871
Medical Expenses	0	0	0
Travel Expenses	5,967	7,051	8,670
Administrative Expenses	68,697	61,824	75,595
Furniture and Equipment	0	0	4,182
Management Fees	628,736	509,734	471,423
Custodial Fees	56,683	81,781	75,806
Consultant Fees	59,125	55,507	52,257
Rent Expenses	30,380	28,933	52,269
Service Contracts	24,925	23,511	15,875
Fiduciary Insurance	<u>12,152</u>	<u>11,080</u>	<u>11,471</u>
Sub Total	<u>1,096,403</u>	<u>970,244</u>	<u>975,015</u>
Total Disbursements	<u><u>\$19,869,954</u></u>	<u><u>\$19,489,596</u></u>	<u><u>\$18,658,283</u></u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Investment Income Received From:			
Cash	\$158,813	\$140,815	\$67,757
Fixed Income	0	855,571	774,816
Equities	118,639	360,387	353,414
Pooled or Mutual Funds	2,814,792	2,617,911	1,365,265
Commission Recapture	<u>260</u>	<u>3,364</u>	<u>3,531</u>
Total Investment Income	<u>3,092,504</u>	<u>3,978,048</u>	<u>2,564,783</u>
Plus:			
Realized Gains	5,598,192	6,136,316	3,215,644
Unrealized Gains	12,394,882	10,434,342	7,932,108
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>23,983</u>	<u>18,738</u>	<u>112,931</u>
Sub Total	<u>18,017,058</u>	<u>16,589,395</u>	<u>11,260,682</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	(163,761)	(125,753)
Realized Loss	(2,135,625)	(1,603,112)	(2,829,103)
Unrealized Loss	(8,771,696)	(4,969,646)	(4,404,092)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(18,738)</u>	<u>(112,931)</u>	<u>(106,847)</u>
Sub Total	<u>(10,926,059)</u>	<u>(6,849,450)</u>	<u>(7,465,795)</u>
Net Investment Income	<u>10,183,503</u>	<u>13,717,994</u>	<u>6,359,671</u>
Income Required:			
Annuity Savings Fund	259,886	234,058	219,061
Annuity Reserve Fund	442,452	450,318	460,564
Military Service Fund	31	32	33
Expense Fund	<u>1,096,403</u>	<u>970,244</u>	<u>975,015</u>
Total Income Required	<u>1,798,772</u>	<u>1,654,652</u>	<u>1,654,672</u>
Net Investment Income	<u>10,183,503</u>	<u>13,717,994</u>	<u>6,359,671</u>
Less: Total Income Required	<u>1,798,772</u>	<u>1,654,652</u>	<u>1,654,672</u>
Excess Income To The Pension Reserve Fund	<u>\$8,384,731</u>	<u>\$12,063,342</u>	<u>\$4,704,998</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash*	\$43,274,034	30.9%	100%
Fixed Income	0	0.0%	
Equities	0	0.0%	
Pooled Domestic Equity Funds	7,439,771	5.3%	0-60%
Pooled International Equity Funds	0	0.0%	
Pooled Domestic Fixed Income Funds	0	0.0%	40-80%
Pooled Global Fixed Income Funds	26,859,319	19.2%	40-80%
Pooled International Balanced Funds	0	0.0%	
PRIT Cash Fund	0	0.0%	100%
PRIT Core Fund	<u>62,353,144</u>	<u>44.6%</u>	100%
Grand Total	<u>\$139,926,268</u>	<u>100.0%</u>	

*includes transitional cash invested in PRIT in January 2008

For the year ending December 31, 2006, the rate of return for the investments of the Lawrence Retirement System was 12.53%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Lawrence Retirement System averaged 7.39%. For the 22-year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Lawrence Retirement System was 9.03%.

SUPPLEMENTARY INVESTMENT REGULATIONS

Administrative Note: The Lawrence Retirement Board voted on August 24, 2007 to voluntarily transition its investments into PRIT. Once the transfer of all assets is complete, previously-approved investment regulations will effectively be rescinded.

The Lawrence Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

July 28, 1994

20.03(1) Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase.

20.03(2) At least 40% but not more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year provided further that "Yankee Bonds" shall be limited to 5% of the total portfolio valued at market.

20.04(5) Obligations of non-U.S. based corporations traded in U.S. markets and in U.S. currency ("Yankee Bonds").

December 5, 1991

16.02(5) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Lawrence Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$667.92 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Lawrence Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

October 29, 2007

Upon becoming a member of the Lawrence Retirement System, any member may purchase any past service rendered as a part-time, provisional, temporary, temporary provisional, seasonal or intermittent employee, provided that the member remits to the Lawrence Retirement Board the appropriate amount of contributions that would have been withheld, together with regular interest, had he or she been a member of the System at the time the service was rendered. It shall be the sole responsibility of the member to obtain and provide to the Board verification of this past service rendered, including but not limited to W-2 Forms and payroll records verified by the payroll coordinator for the employer or any other employee who has the similar duties of the payroll coordinator indicating the amount of compensation received and amount of hours worked for each calendar year in which service is sought to be purchased. In the event that any or all of such original documentation is unavailable, the Board may exercise its discretion pursuant to M.G.L. c. 32, § 20(5)(c)(I), on a case by case basis, to accept alternative documentation to verify said service and compensation.

For members who purchase such past service rendered as a part-time, provisional, temporary, temporary provisional, seasonal or intermittent employee, creditable service shall be calculated based on 1040 hours of compensated employment in the aggregate being the equivalent of one (1) year of creditable service. Members shall be credited with full months and full years of past service rendered and purchased.

Any member who received remuneration or payment in the form of cash for services rendered will not be considered an employee and will be precluded from purchasing any such past service rendered. The Board does not permit the purchase of past service rendered as a coach, assistant coach, referee, sports time keeping, life guard, substitute teachers, crossing guards, appointed officials or any other position which is paid via 1099 Form rather than a W-2 form.

April 25, 2005

Effective April 25, 2005, any individual who is permanently employed for a minimum of twenty (20) hours per week by the City of Lawrence, the Lawrence Public Schools or any member unit of the Lawrence Retirement System ("System"), shall immediately become a member of the System. Police Department crossing guards do not meet the required 20 hour minimum, and are no longer eligible for city benefits, therefore shall not be eligible for membership in the Lawrence Retirement System.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

May 21, 2003

Any individual who is permanently employed for a minimum of twenty (20) hours per week by the City of Lawrence, Lawrence Public Schools or any member unit of the Lawrence Retirement System ("System"), shall immediately become a member of the System. So-called "permanent" and/or "long-term" substitute teachers shall not be considered permanent employees and shall not be eligible for new membership in the Lawrence Retirement System. Individuals who are appointed, rather than elected by a direct vote of the people, to board, commissions and similar entities in the City of Lawrence shall not be eligible to join the system.

May 2, 2002

The Board has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Comptroller who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: David Camasso

Appointed Member: William McGuire Term Expires: indefinite

Elected Member: John Neilon Jr., Chairperson Term Expires: 6/30/10

Elected Member: Nancy Ross Term Expires: 12/30/08

Appointed Member: William Bateman Term Expires: 12/31/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	MACRS Policy:
Ex-officio Member:)	\$1,000,000 Fidelity (ERISA) Bond and
Elected Member:)	\$50,000,000 Fiduciary Insurance
Appointed Member:)	through Travelers, National Union,
Staff Employee:)	and Arch Insurance Companies

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting Inc. as of January 1, 2007.

The actuarial liability for active members was	\$123,107,603
The actuarial liability for inactive members was	2,171,908
The actuarial liability for retired members was	<u>147,667,581</u>
The total actuarial liability was	272,947,092
System assets as of that date were	<u>128,728,064</u>
 The unfunded actuarial liability was	 <u>\$144,219,028</u>
The ratio of system's assets to total actuarial liability was	47.2%
As of that date the total covered employee payroll was	\$59,178,643

The normal cost for employees on that date was 8.61% of payroll

The normal cost for the employer was 3.21% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
 Rate of Salary Increase: 4.75% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2007	\$128,728,064	\$272,947,092	\$144,219,028	47.2%	\$59,178,643	243.7%
1/1/2004	\$103,202,075	\$236,419,965	\$133,217,890	43.7%	\$50,354,989	264.6%
1/1/2003	\$86,299,000	\$222,640,000	\$136,341,000	38.8%	\$53,621,000	254.3%
1/1/2000	\$107,953,000	\$183,229,000	\$75,276,000	58.9%	\$46,092,000	163.3%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retirement in Past Years										
Superannuation	21	22	26	26	97	20	28	7	20	18
Ordinary Disability	0	0	0	0	0	0	0	0	0	1
Accidental Disability	4	7	9	12	3	2	3	3	2	2
Total Retirements	25	29	35	38	100	22	31	10	22	21
Total Retirees, Beneficiaries and Survivors	860	845	853	861	905	953	971	912	934	919
Total Active Members	1,576	1,793	1,957	2,070	1,905	1,776	1,659	1,668	1,579	1,569
Pension Payments										
Superannuation	\$5,262,203	\$5,343,875	\$5,637,815	\$5,852,573	\$6,381,824	\$8,270,571	\$8,751,109	\$8,713,404	\$9,296,343	\$9,429,291
Survivor/Beneficiary Payments	710,816	739,125	772,993	789,686	818,234	865,173	834,314	858,325	911,014	955,681
Ordinary Disability	175,474	165,953	164,641	163,257	149,303	139,357	124,757	129,433	97,247	102,163
Accidental Disability	2,361,604	2,470,765	2,725,431	3,129,187	3,102,916	3,185,424	3,313,609	3,416,212	3,705,876	3,568,794
Other	1,365,171	1,397,324	1,428,611	1,559,192	1,674,974	1,681,277	1,677,239	1,818,100	1,714,957	1,613,388
Total Payments for Year	<u>\$9,875,268</u>	<u>\$10,117,042</u>	<u>\$10,729,491</u>	<u>\$11,493,895</u>	<u>\$12,127,251</u>	<u>\$14,141,802</u>	<u>\$14,701,027</u>	<u>\$14,935,474</u>	<u>\$15,725,436</u>	<u>\$15,669,318</u>

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